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Vending Machine Food Distribution In Canada

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Report Highlights:

Canada's market for vending-machine foods is growing and poised for significantly greater growth as new and merging technologies enable the country's automatic merchandising industry to capitalize on major changes in consumer behavior.

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Introduction

Canada's market for vending-machine foods is growing and poised for significantly greater growth as new and merging technologies enable the country's automatic merchandising industry to capitalize on major changes in consumer behavior. In Canada, as in the United States, changing demographics and lifestyles are increasing consumer demand for the ultimate in convenience: the availability of food anytime, anywhere. Nowhere is this more evident than in the surging demand for home meal replacements. U.S. food producers and processors are particularly well positioned to take advantage of opportunities in the vending-machine sector of Canada's foodservice industry.

Best opportunities are in Canada's urban centers, where workplaces, institutions, universities, colleges, schools, transportation terminals, recreation and entertainment venues attract not only the local populace but many people from surrounding areas.

Canada and the United States are home to the world's largest vending industries. The U.S. tends to lead the way in the development and adoption of new vending technologies, the adaptation of food and beverage products to make them suitable for vending and safe for consumption, and the creation and implementation of marketing innovations. With some notable exceptions, Canada tends to adopt innovations and advances only after they have proved to be viable in the U.S. This time lag is a window of opportunity for aggressive U.S. suppliers to facilitate and capitalize on earlier adoption in Canada of new and innovative food and beverage products for the vending machine market.

In many ways, the Canadian vending-machine food and beverage industry mirrors in microcosm that of the United States. Industry structure, trends, marketing strategies and practices and socio-economic factors underlying the markets are similar too. For example:

In both Canada and the United States, the vending machine food distribution industries – traditionally, made up of small, independent enterprises – are undergoing consolidation. A key point of differentiation in the United States is that, with the earlier onset of consolidation, there are more regional and national distributors and operators. Also, branded food and beverage vending has a significantly larger presence. The Canadian vending-machine food distribution industry still is highly fragmented.

Both are immigrant-receiving countries with populations of diverse ethnic origins, a variety of settlement patterns and populations-at-large with a growing interest in "ethnic foods". Major demographic changes are underway as the elderly cohort swells with the influx of aging "Baby Boomers" and as Asian countries become the primary sources of immigrants to Canada..

In both Canada and the U.S., concern over child and youth obesity is gathering momentum. Vending machine food and beverage offerings in schools are under attack from health activist and professional groups such as the Center for Science in the Public Interest and pediatric and dental associations. The need for nutritious offerings in schools, workplaces, institutions and recreational centers has never been greater or more clearly articulated.

The greatest challenge facing these industries is also the greatest opportunity within their grasp. That is, how to

capitalize on the most important food trend of recent times: home meal replacements (HMRs). The quest to provide and expand the range of frozen and fresh meal solution offerings at vending machines continues, as consumer demand for prepared meal solutions increases. The over-arching challenge is to win the confidence and trust of consumers that foods in vending machines are fresh, flavorful, healthy, safe to eat and of good quality. There is recognition on both sides of the border that the power to achieve this lies in the brand. New and emerging vending and packaging technologies tell us a vast and exciting opportunity in machine-vended meal solutions is on the doorstep.

All financial data are in Canadian dollars.

I. Market Summary

Overview of the vending-machine food distribution market

Foodservice is one of Canada's largest and most dynamic industries. With \$42.6 billion in 2001 sales, the industry represents 4 per cent of the country's gross domestic product and a 41.1 per cent share of stomach. Grocery and convenience store food sales account for the remaining 58.9 per cent¹. 2001 was the eighth consecutive year in which the foodservice sector increased its share of the Canadian food dollar.

These gains notwithstanding, the Canadian foodservice industry lags that of the United States, where 46.1 percent of the American food dollar goes to foodservice. Reasons for this disparity are Canada's lower disposable income and goods and services tax.

Canada's foodservice industry comprises two sectors: commercial and non-commercial. As the result of commercial foodservice operators expanding into the non-commercial sector, the non-commercial sector's market share has declined from 28 percent to 22 percent, while commercial's has climbed to 78 percent from 72 percent.

¹ CRFA - Research - Foodservice share of stomach rises to 41.1 percent: http://www.crfa.ca/research/research_foodservice/sharerises.htm

Composition of Canada's Foodservice Industry

Foodservice sector	Channels	Share of Foodservice Market (percentage)
<i>Commercial:</i>	Full-service Restaurants	38.1
	Limited-service Restaurants	28.2
	Social and Contract Caterers	6.4
	Pubs, Nightclubs and Taverns	5.5
<i>Non-Commercial:</i> Accommodation	<ul style="list-style-type: none"> Hotels, Motels Resorts 	10.5
Institutional	<ul style="list-style-type: none"> Hospitals, Residential care Prisons Factories, Offices 	5.8
Retail	<ul style="list-style-type: none"> Department stores Convenience stores Other retail establishments 	1.7
Other	<ul style="list-style-type: none"> Vending Sports/private clubs Movie theatres Stadiums, other entertainment and seasonal operations 	3.7

Source: CRFA Foodservice Facts 2002 (Canadian Restaurant and Foodservice Association)

Vending's share of Other Foodservice sales is estimated at 62.5 percent or \$1 billion². Key components of vending are Beverages (67 per cent), Confections and Snacks (21 per cent), All-Purpose Food (7 per cent), Other (3 per cent) and Ice Cream (2 per cent).

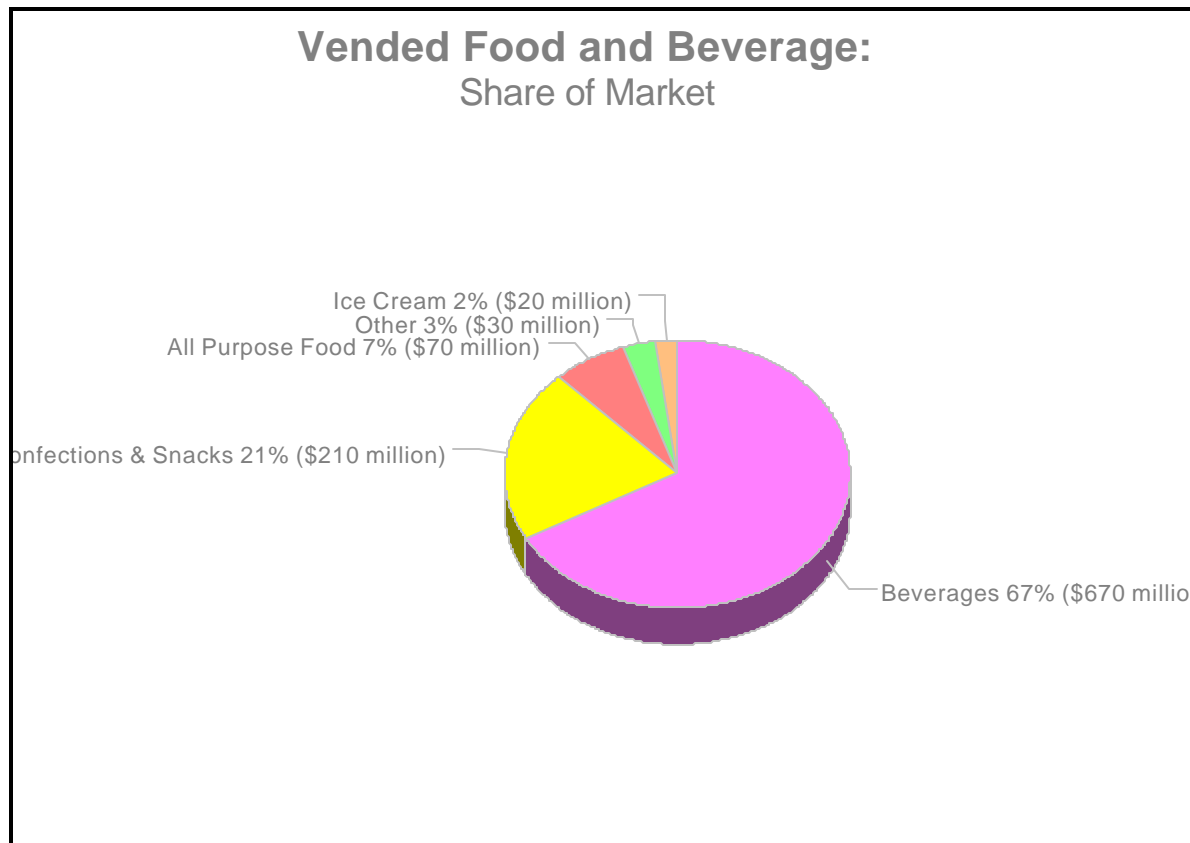
The potential for growth in the vending channel is highlighted by the fact that, in the commercial sector of foodservice in 2001, 59.5 percent of meal occasions were off-premise. Of these, 35.5 percent were take out, 6.0 percent telephone delivery, and, of particular relevance to vending, 18.1 percent were drive through – a 40 percent jump from the 1998 share of 12.9 percent.³ Furthermore, the average check per person, inclusive of taxes but exclusive of tips, for all segments of commercial foodservice was a modest \$5.81 in 2001.⁴ In the Quick Service segment, the average check was \$3.98, inclusive of taxes⁵. These data indicate clearly the need for price-point sensitivity in pricing of vended meal solutions.

²Canadian Vending & Office Coffee Service Magazine

³CREST/NPD Group Canada Inc., Foodservice Facts 2002, Canadian Restaurant and Foodservices Association

⁴Ibid

⁵Ibid



Change is reshaping every segment of Canada's vended food industry and, in some cases, blurring the lines that traditionally have demarcated categories.

In the Beverages sector, coffee, despite recent slippage in its share-of-category, continues to command the lion's share (34 percent/\$340 million) and is repositioning itself for a new growth spurt. Today's Canadian coffee drinker expects to be offered a selection of inter-related coffee products, ranging from standard hot and black to specialty and iced coffees. And so the vending industry is adjusting to a menu-and-quality-driven, consumer focus in place of its traditional product orientation – that is, standard hot and black coffee.

While sales of standard coffee are down, there is plenty of growth taking place in the specialty and iced coffee segment. Many vended coffee operators are also office coffee service operators. Like vended coffee, office coffee service (OCS), which logged flat sales in 2001, is undergoing similar change as it faces stiff competition from Second Cup, Starbucks, Tim Horton's and Timothy's Coffees of the World. These shifts to quality, variety and consumer-orientation signal opportunities for U.S. suppliers.

Cold drinks, including milk and milk beverages, account for approximately 29 percent or \$290 million of total vending sales. Although sales of carbonated beverages are flat, other cold drinks such as water, iced teas, sport

drinks, cold coffees, and dairy based drinks are reported gaining segment share⁶. With sales of new age and energy drinks surging in the United States and Europe, where growth of the latter is running at 50 percent, the expectation is that Canada will relax regulations to allow the marketing of energy drinks⁷. At the time of writing, energy drinks are not sold in Canada because they contain certain ingredients that are not permitted by the Health Canada Food Directorate.

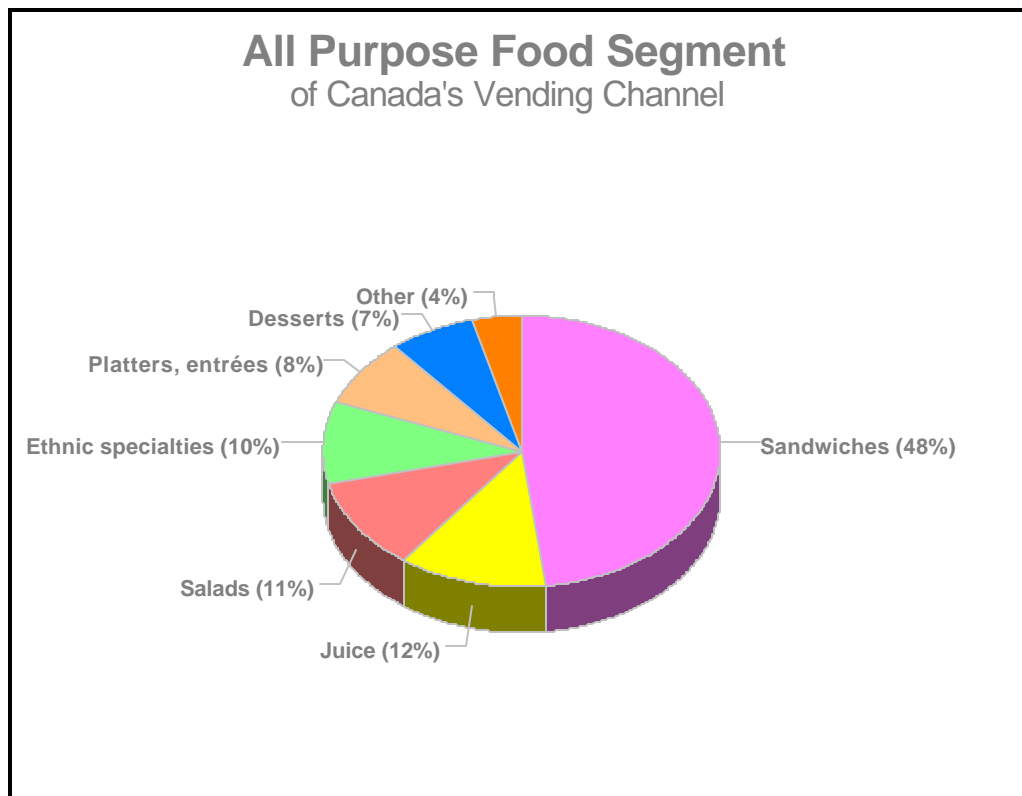
In the \$200-million Confections and Snacks category, sales of candy are soaring as the eating habits of Canadians become less structured⁸. Cookies and cereal bars have posted steady sales increases over the past four years. Chocolate continues to rule the roost throughout the category. While salty snacks too are increasing sales, growth has been restrained by what category managers describe as the “under-development” of Canada’s vending industry relative to that of the United States. “Canada”, claimed a spokesperson for Hostess Frito-Lay, “has only three to five percent of the number of snack vending machines the U.S. does.” At the same time, the spokesperson maintained, there is a lot of growth potential in Canada’s vending market.

Blurring the lines in this category is the snacking trend in which healthy nibbling constitutes a “fourth daypart” or mini meal as Canadians move to eating small amounts of food more frequently and on the run. Snacks of this type may be sweet or savory, low-fat, low-sugar, contain whole grains, nuts and/or fruit fillings but are always wholesome and may even be reinforced with calcium and/or vitamins. For competitive reasons, confection and snack manufacturers, like many others, do not disclose sales data. All agree, however, that brands are a vital force in this growth.

⁶*Ibid*: “The Right Fit: Soft drink vending trends” by Ken Reynolds, April 2002, pp. 10-13

⁷*Ibid*

⁸*Canadian Vending & Office Coffee Service Magazine*: “More Canadians Go For Quick Food Fix”, by Jennifer McCauley, October 2001, pp.12-13.



All Purpose Food Segment of Canada's Vending Channel

The All Purpose Food category rang up 2000 sales of \$70 million, growing 3 percent over 1999, to rank third in the food vending channel. This is the meal solution category in which fresh and frozen foods are sold through refrigerated machines. Considered the most important food trend in decades, meal solutions have the greatest growth potential of all categories⁹. Vended frozen home-meal replacements already are an industry growth leader.

Convincing consumers that its offerings are safe, flavorful, healthy, fresh or ahead of best-before date, and of good quality is the principal challenge confronting this category.

While Canadians of all ages and ethnic origins purchase machine-vended foods from time to time in a variety of settings, most tend to be younger people who access foods and beverages in entertainment and sports venues, transportation terminals and educational institutions. Younger people are at ease with technology and quick to adopt innovations. This augurs well for the future of machine-vended foods as remote ordering and cell-phone billing emerge among the new technological realities in Canada's vending channel.

⁹"Frozen Foods are Now The Fastest Selling Items in Vending", by Jennifer McCauley: *Canadian Vending & Office Coffee Service Magazine*, June 2001, pp. 6-8

Growth in the Canadian Vending-Machine Food Market

From 1997 to 2001, vended food sales in Canada grew at an estimated average annual rate of 5 percent¹⁰. Coffee retained first place with 34 percent of all vending sales. Its estimated average annual growth rate of 9 percent was – and continues to be – driven by specialty products. For example, while sales of standard coffee registered zero growth, consumption of espresso-based coffees soared from 42 percent in 1999 to 51 percent in 2000. In the same 12 month period, sales of cappuccino went from 33 percent to 42 percent, lattes from 14 percent to 22 percent, and ice-blended coffees from 19 percent to 24 percent¹¹.

Confectionery and snacks, the third largest category, grew 7 percent, to pass \$200 million in sales. Propelling growth were fruit and cereal bars, single-serve breakfast cereal combos with milk, sugar and spoon, and whole grain, fruit and nut cookies.

All Purpose Food increased its share of vending sales from 4.4 percent in 1997 to 7 percent in 2001. The story in this category has been – and will continue to be – the fastest growing items in vending: single-serving frozen entrees. The current menu includes pasta, chicken pies, pizza pops, burritos and Chinese food. New technologies, such as enhanced modified atmospheric packaging and 90-second flash heating from frozen, now in test marketing, are expected to generate an even wider selection of offerings.

The Canadian Automatic Food-Merchandising Marketplace

In Canada, the automatic merchandising of food is essentially an urban phenomenon. In towns and cities, food-vending machine locations tend to be in facilities with 24-hour, 7-days-a-week consumer traffic. This ensures quick turn-over of offerings, allows for frequent, cost-efficient restocking and service calls and, thus, greater profitability. Food-vending machine locations tend to be concentrated in the following facilities:

- < Educational institutions, especially high schools, community colleges and universities
- < Transportation terminals, such as airports, railroad hubs, bus terminals
- < Hospitals and residential care facilities
- < Sports arenas, stadiums and clubs
- < Entertainment venues, exhibition and concert halls, and movie theaters
- < Factories and offices
- < Hotels, motels and resorts

¹⁰Consensus estimate of several industry sources

¹¹“Coffee Today” by Gina Monaco, *Canadian Vending & Office Coffee Service Magazine*, October 2001, pp. 24-25

Canada's Food Vending Machine Population

Over the decade 1985-1995, the number of vending machines in Canada increased by 36.8 percent, from 148,982 units to 203,758 units¹². Of these, 97.8 percent were food and beverage vending machines, which numbered 199,273 in 1995, the most recent year for which data are available. Ontario led with 67,619 units, followed by Quebec (39,876), the Prairie region (43,613) and the Atlantic region (23,336).

Source: Statistics Canada: Vending Machine Operators, Fiscal year ended march 31, 1996; Catalogue no. 63-213-XPB

Canada's Major Markets for Machine-Vended Food

Major urban markets: Population
(Thousands)

Metropolitan Area	1997	1998	1999	2000	2001
Toronto (Ontario)	4499	4586.7	4669.3	4763.2	4881.4
Montréal (Québec)	3408.9	3423.9	3447.6	3474.9	3511.8
Vancouver (British Columbia)	1967.6	1998.4	2028.4	2058.7	2094.1
Ottawa-Hull (Ontario-Québec)	1045.5	1055.6	1068.6	1086.1	1106.9
Calgary (Alberta)	873.2	903	926.1	947.3	971.5
Edmonton (Alberta)	897.3	914.3	928.1	941.8	956.8
Québec City (Québec)	685.4	686.6	688.4	690.5	693.1
Winnipeg (Manitoba)	677.8	677.8	679.7	682.1	684.8
Hamilton (Ontario)	650.4	657.8	664.7	672.2	680.6
London (Ontario)	413.1	415.9	418.5	422.1	426.3
St. Catharines-Niagara (Ontario)	385.5	387.5	388.8	390.9	393.1
Kitchener (Ontario)	402.1	408.5	415.5	423.2	431.7
Halifax (Nova Scotia)	345.3	348.9	352.8	355.9	359.2
Victoria (British Columbia)	317.6	316.8	317	317.1	317.8
Regina (Saskatchewan)	199.1	199.2	199.8	199.3	198.1

Source: Statistics Canada, CANSIM II, table 051-0014 and Catalogue no 91-213-XIB

¹²Statistics Canada: Vending machine operators, Fiscal Year ended March 31, 1996; catalogue no. 63-213-XPB

Advantages and Challenges Facing U.S. Products Entering Canada

Advantages	Challenges
The Canadian dollar trades at a substantial discount to the U.S. dollar. Thus Canada's economic environment offers U.S. companies an excellent financial advantage when processing food in Canada.	The strength of the American dollar may inhibit the sale of some primary foods or value-added products from the U.S.
Vending-machine distribution is a new, fast-growing, under-developed channel for meal solutions. Aggressive U.S. suppliers who are prepared to develop the market, have an opportunity to capture significant share.	Canadian tariff rate quotas and product trade restrictions may inhibit some exports to Canada.
Canada's vending-machine food distribution channel is more fragmented than that of the U.S. Consolidation of operators and of machines – e.g., side-by-side food and beverage – means more operators can be “sold” through fewer procurement calls and offers higher volume opportunities.	Canada's vending-machine operators tend to be smaller independents and regional operators. Although regional operators may centralize procurement, their focus is on regional market needs and trends. Most vending machine operations are local, thus requiring more sales calls in each market.
North/south shipping corridors present an excellent advantage vs offshore competitors.	Canadians trust global brands. U.S. brands that have not been promoted in Canada need to win the confidence of Canadians.
Trade agreements facilitate smooth entry for exporters to Canada.	Regulations concerning specific primary or processed products inhibit entry into Canada.
A 1997 Global Competitiveness Survey conducted by KPMG ranks Canada as 4 th most competitive economy in the world after Singapore, Hong Kong and the U.S.	For products imported into Canada, competition will be fierce, as domestic suppliers provide better costing for primary and value-added products.
The United States is Canada's largest trading partner and many Canadian food manufacturers are wholly or partly owned by U.S. multi-national enterprises.	The Canadian Agricultural Marketing Council intends to increase trade with foreign countries other than the United States. <i>Source: Agriculture & Agrifood Canada/agrifood trade policy and World Trade Organization agreements</i>

Industry Value and 5-Year Growth by Sub-Sectors

Sales of food merchandised through vending machines were approximately \$1 billion¹³ in 2001. While it is estimated that annual growth over the five-years 1997-2001 has averaged 5 percent per year, no hard data are available to support this or to indicate growth in individual years.

Owing to an absence of industry research and reporting, the proprietary nature of sales data and the high degree of fragmentation in the food vending machine channel, no data are available for year-to-year growth rates in individual food and beverage categories that make up the food vending channel.

Regional Market Comparisons

In the absence of industry-generated statistics, regional data for vending machine food distribution has been extrapolated from data on the number of machines in different regions of Canada that are reported in the Statistics Canada publication "Vending Machine Operators 1995: Fiscal Year ended March 31, 1996"¹⁴.

Region	Vending Machines	Share of Market (percentage)	Population (thousands)	Per capita Population per Machine
British Columbia	25829	12.9	4095.9	158.6
Prairie Region	43613	21.9	5230.0	119.9
Ontario	67619	34.0	11874.4	175.6
Quebec	39876	20.0	7410.5	185.8
Atlantic Region	22336	11.2	2372.1	106.2
Canada*	199273	100.0	30982.9	155.4

*Excluding Nunavut, Northwest Territories and Yukon

¹³ Canadian Vending & Office Coffee Service Magazine: Interview with Editor.

¹⁴ Statistics Canada: "Vending Machine Operators 1995: Fiscal Year ended March 31, 1996", catalogue no. 63-213-XPB

II. Opportunities

a) Meal solutions

Home meal replacements (HMRs) are the largest single development in food retailing in years, say industry analysts. The trend's impact on the automatic merchandising channel, to which the category is a relative newcomer, is just starting to be felt – and is growing rapidly as consumers opt for the convenience of not having to prepare a home meal from scratch.

In 2000, frozen HMRs were the fastest selling items in vending¹⁵.

In Canada, HMR sales through all channels are expected to grow to about \$2 billion by 2005.¹⁶ If sales in the automatic merchandising channel do no more than maintain their present 3 percent annual growth rate, HMR sales in 2005 will exceed \$284 million. Single serve HMRs are leading growth across the board. In just 10 categories of single-serve meal solutions tracked by ACNielsen in 2000, sales surpassed \$628 million, racking up a 6 per cent gain over 1999 and up double digits from the year before.¹⁷ It is important to note that those 10 categories did not include any dairy products, where single-serve yogurt, cheese sticks and milk are big business, nor did they include any single-serve items prepared by supermarkets, which are growing meal solution sales just as fast.

Ideal for a Quick Meal

Approximately 56 per cent of Canada's population consists of one or two-person households. And consumers are buying single serve foods in ever increasing numbers.¹⁸ The vending channel is ideally suited to single serve meal solutions. "Operators really like the quality, freshness and longer shelf life of frozen food products," says a spokesperson for Can-West Vending of Edmonton, Alberta. Operators are switching from unprofitable refrigerated machines to frozen food vending machines to generate savings due to longer shelf life and to reduce route drivers' visits to machines to remove spoiled products.

There is a 25 percent throw away factor every month with fresh food, which has a three to five-day shelf life¹⁹. Frozen food, on the other hand, has at least a six-month shelf life. Thanks to new technology that ensures frozen foods stay icy during transportation, vending operators are confidently introducing them into the vending channel and food processors are manufacturing an ever-widening variety of frozen foods for vending to meet the growing demand. The most widely available single-serve frozen entrees at the time of writing were pasta dishes,

¹⁵ "Frozen Foods Are Now the Fastest Selling Items in Vending", by Jennifer McCauley: *Canadian Vending & Office Coffee Service Magazine*, June 2001, pp.6-8

¹⁶ *Canadian Grocer*, "Ready, Set, Eat", by Sonya Felix

¹⁷ *Canadian Grocer*, "Table for one"

¹⁸ *Canadian Grocer*, April 25, 2001: *Table for One, Please*", by George H. Condon

¹⁹ "Frozen Foods Are Now The Fastest Selling Items in Vending", by Jennifer McCauley: *Canadian Vending & Office Coffee Service Magazine*, June 2001, pp.6-8

pizza pops, chicken pies, burritos and Chinese foods.²⁰

Keys to Profitability

While the prime locations for vending frozen meal solutions are factories, large office buildings, recreation complexes, schools and universities, the most powerful determinants of profitability are location, display, demographics and brand.²¹ Machines in educational institutions and student residences, for example, should be stocked with burritos and cheeseburgers. Where traffic is primarily female, offerings should include some healthy alternatives such as low calorie or low-fat entrees or Lean Pockets. Machine locations in areas with 24-hour traffic, seven days a week, need to offer items for each part of the day, such as a combination of breakfast items, Hot Pockets or burritos for lunch, and supper entrees of a more substantial nature.

Stocking machines with name-brand products is a sure-fire way to ensure success, according to a spokesperson for British Columbia's Pinetree Vending. The company relies on three long-standing bestsellers: McCain's Pizza Pops, 15 different lines of Stouffer's pasta entrees, and California-produced Chimmy Changas.

A huge factor in the growth of HMR vending, industry sources concur, is the microwave oven, especially with recent enhancements, such as the availability of 800-watt and 1,000-watt microwaves. Higher wattage ovens reconstitute food faster and cook it thoroughly.

Technological advances will continue to grow the market, predicts a spokesperson for Brokerhouse Vending Products. "As new and better microwaves become available and advances in product packaging reduce reconstitution times, it will be easier than ever for a frozen product to become a properly heated meal." Another growth driver is the fact that almost every workplace now has at least one microwave oven.

Recognizing the magnitude of the opportunity in meal-solutions vending and that cooperation between industry stakeholders is essential to success, there's a new spirit of collaboration developing between food processors, suppliers and vending machine operators²².

A spokesperson for vending equipment manufacturer Automatic Products International, Ltd. of Rexdale, Ontario, observed that an increasing number of frozen food product suppliers, in conjunction with machine manufacturers, are offering branded programs involving incentives to vend operators. Automatic Products, for example, has a Michelina's-branded program with the company's glass-front frozen food merchandiser that offers the vending-machine operator a product incentive for each branded merchandise purchase. In return, the operator commits to using Michelina's product in the merchandiser for a specified period. "More frozen food suppliers," explained the spokesperson, "are looking at programs such as this to entice operators into serving

²⁰ "The big freeze: frozen entrees gathering momentum", by Ken Reynolds: Canadian Vending on-line archive, July 30, 2002:
<http://vending.retailfoodservice.com>

²¹ "Frozen Foods Are Now The Fastest Selling Items in Vending", by Jennifer McCauley: Canadian Vending & Office Coffee Service Magazine, June 2001, pp.6-8

²² "The big freeze: frozen entrees gathering momentum", by Ken Reynolds: Canadian Vending online archive, July 30, 2002:
<http://vending.retailfoodservice.com>

their food and to create loyalty to their product lines.”

Much of the success experienced in the vending channel by Michelina’s and other frozen products is due to the comfort and confidence levels that consumers have with familiar brands.²³ That’s the viewpoint of a spokesperson for Self Serve Foods Inc., the branded vending division of Luigino’s, manufacturer of Michelina’s and other products, who added: “Branded vending machines are more profitable than generic ones. Furthermore, when operators add frozen products to their lines, the sales increases they experience are incremental. They end up getting customers they would not have otherwise had.”

Branded proving-ground opportunity

Several industry experts see a key role for vending in test marketing of new products. The channel can be used to increase product trial occasions and is a valuable advertising and sampling vehicle for branded retail products.²⁴ Given the powerful influence of brand in building sales in vending and the escalating use of new-concept branded products by private label, vending could serve as a protected outlet for new branded foods.

“A whole new opportunity”

A packaging concept that lends itself particularly well to vending is the product-in-a-bowl, according to a spokesperson for Otter Valley Foods in Tillsonburg, Ontario, a frozen food manufacturer that co-packs for several national brands including Bluewater Seafood, Healthy Choice and Campbell’s.²⁵ Several of their products are being vended and the company expects the vending market to continue growing.

“What is happening with this new bowl packaging,” said the spokesperson, “is that consumers are buying this in the grocery store, taking it to work and having it for lunch. That leads very well into vending. If these products can be stocked within vending machines in workplaces, then people could access them on the spot and heat them up in the microwave - and it’s right there.” This is a whole new opportunity for vending operators.

“For frozen entree manufacturers, the lunch meal opportunity has not really been available until now,” explained the spokesperson. “The idea of having it kept in a frozen state at people’s place of work or where they are going to school, that would appeal to them and that would open up a whole new meal opportunity.”²⁶

Hot Choice, a new vending machine that serves up chicken wings, nuggets, French fries or pizza from frozen to piping hot in less than 90 seconds is being tested at 10 sites in Ontario. The food is stored frozen in the fully automated machine, when selected it is cooked in an oven that combines hot air impingement and microwave technology. Toronto-based Maple Leaf Foods developed all the products for the \$17,000 machine, which is marketed by Pronto Products of Mississauga, Ontario.

²³*Opus cit.*

²⁴“Wake-Up Call”, by William P. Mason and Lisa M. Light, *The Hale Group Ltd., Canadian Vending & Office Coffee Service Magazine*, December 2001, pp. 8, 9, 37

²⁵“The big freeze: frozen entrees gathering momentum”, by Ken Reynolds: *Canadian Vending online archive*, July 30, 2002: <http://vending.retailfoodservice.com>

²⁶*Ibid*

In 2001, French fries (22 percent) and hamburgers (11 percent) continued to rank # 1 and #2 in the Top 10 Foods in Canadian foodservice ²⁷. Other hot foods on the hit parade were chicken and pizza.

One factor that many industry insiders believe is hindering the growth of frozen meal- solutions vending in Canada is the nation's 7 percent Goods & Services Tax (GST), which vending operators must charge at the point of sale – even though the same entree is sold in a grocery store with GST. The reason is vending is classified as foodservice, which attracts GST, whereas grocery stores are food retailing, which does not.

Small meals

Two key trends in food vending are neither home meal replacements nor snacks. They fall somewhere between the two. Marketed and consumed as mini-meals or “fourth dayparts”, they belong properly in a category of their own. Both trends are rapidly gaining momentum and offer important opportunities for U.S. food manufacturers:

One-hand meals

While these are ideal for the accelerating “dashboard dining” habit of a nation of commuters on the run, because they can be easily and safely consumed in one hand, with the other on the steering wheel, they are well-suited to the vending channel and, in particular, to transportation terminal and workplace locations. Muffins, *biscotti*, bagels and filled English muffins are best-sellers for breakfast. Wraps, soft enchiladas, and mufaleta - thinly-sliced specialty breads with multi-layer fillings of vegetables, cold meats and/or cheese – lead lunch-on-the-run menus and are popular vending-machine choices.

“Fourth dayparts”

“Eat less, more often” is the mantra of harried, health-focused consumers. Their palatable solution for a rapidly growing number is the energy bar that is more than a snack, but less than a meal: Food Channel Trend Wire calls it the fourth daypart ²⁸, a meal replacement snack. Reality is that Canadians often eat alone and on the run.

This, most often, is a calcium fortified, protein enriched bar that constitutes the fourth meal of the day. These snacks provide a small meal replacement for the time-pressed and, according to The Food Channel Trend Wire²⁹, their moment of consumption is entirely flexible. Nutrient profiles of these products are similar to or the same as those of sports/energy bars. Examples are Adams calcium-enriched BodySmarts line of “good-for-you” snack bars from Pfizer. Kraft and Hershey have similar products. BodySmarts’ packaging carries a drug identification number (DIN) and a list of medicinal ingredients that enable the manufacturer to make nutrition claims.

²⁷ CRFA Foodservice Facts 2002, p. 27

²⁸ Food Channel Trend Wire, Volume 13, Number 22, May 28, 2001

²⁹ Ibid

Share of Meal Occasions By Daypart in Commercial Foodservice³⁰

Daypart	1998	2001
Breakfast/Morning Snack	16.1%	18.5%
Lunch	28.9%	29.2%
Supper	39.3%	36.0%
PM Snack	14.6%	15.4%

Snacks

Canadians are a nation of snackers. Nine out of 10 Canadians sneak a snack between meals, opt for a snack instead of a meal or grab a snack to accompany a meal, according to the Canadian Restaurant Foodservice Association³¹, Canada's largest hospitality-industry association. Eight in 10 say they snack every day.

Riding the crest of the trend in food vending are fruit and cereal bars and cookies.³² Kellogg's has made it easier than ever to be a healthy snacker by introducing a line of individually wrapped, wholesome, low-fat products in vending machines. These are the company's Nutri-Grain Cereal Bars in mixed berry, apple cinnamon, blueberry and strawberry, and strawberry-banana Nutri-Grain Twists.

Nowadays, cookies can also be a healthy choice, especially the homemade oatmeal variety.

The top-seller for Kellogg's is their Rice Krispies Original Square, with line extension chocolate peanut butter and chocolate caramel gaining in popularity. Canadian snack manufacturer Amore Sweets reports substantial and surging demand for its cereal bars and says chocolate chip cookies continue to be the number one favourite in vending.

Salty snacks

While salty snack manufacturers report increasing sales in vending, they are quick to point out that, when compared with growth rates in commercial and non-commercial food service accounts, increases in vending are modest. A spokesperson for vending and foodservice at Hostess Frito-Lay cites underdevelopment of the Canadian vending market as the reason for less impressive gains, but believes there is a lot of growth potential in this sector.

One of the top sellers through vending machines is potato chips, sales of which have been on a growth

³⁰Foodservice Facts 2002, Canadian Restaurant and Foodservices Association. Source:CREST/NPD Group Canada Inc.

³¹"More Canadians Go For a Quick Food Fix", by Jennifer McCauley, Canadian Vending & Office Coffee Service Magazine, October 2001, pp. 8-12

³²Ibid

trajectory for several years. While chips and similar products like Tostitos with salsa and Fritos with chili sauce are not meal replacements, there is no question they are being consumed as such.

Although flavour is believed to be the driving factor in vending sales, next to flavour, size drives the market and most snack manufacturers agree these two factors will determine future snacking trends. Consumers will continue to demand new innovations, shapes and flavours, but size will be the major focus, they claim, pointing to the emergence of big-wrap sizes, 70- to 80-gram products – as opposed to the 40-gram size that has been a mainstay of vending. King sizes, top performers in convenience stores, are now making solid gains in vending.

Confectionery

Old favourites – especially chocolate – continue to rule the roost in vending. In both chocolate and non-chocolate lines, the hit parade leaves little doubt that brand drives business in confectionery vending.

Although chocolate-covered pretzels and caramel corn (up 26 percent in retailing) continue to be star performers at the checkout, they are under-represented in vending.³³

What's next? The success of larger size candy bars notwithstanding, a spokesperson for Hershey predicts portion control is on the horizon: "Females have a tendency not to consume everything at once," she says. They tend to save part of the candy bar, so products with portion control hold a lot of appeal for them. This need must still be met in the vending channel.

Functional foods and beverages

Canadian consumers' heightened interest in health issues has transformed just about every category at the retail level. Foodservice, from fast food to five star, is responding to the trend. Low-fat, high-fibre, low or no cholesterol, all natural, "a good source of vitamins" and "heart smart" are some of the claims being made on menus and packaging. There is more to come as a deluge of so-called functional foods and beverages hits the marketplace.

In the U.S., where the Food & Drug Administration (FDA) allows manufacturers to make some health claims, functional foods and beverages are among the fastest growing segments in food retailing. In Canada, federal regulations do not as yet allow health claims on foods and beverages. However, regulations on allowable health and nutrition claims have been drafted and are under review.

Some manufacturers, recognizing the potential for functional foods and frustrated by the delay, have short-circuited the process by having their products classified as drugs, even though this restricts promotional activities. PepsiCo's Tropicana orange juice with calcium and Adams' BodySmarts are two such products.

³³*Ibid*

In the United States, the fast-growing products in the functional beverage segment are herb-enhanced fruit drinks, ready-to-drink teas, sports and energy drinks and single serve fresh juices. The segment posted growth of 50 percent in 2001 over 2000.³⁴ Sales of functional beverages are predicted to hit \$12 billion by the year 2007.³⁵

Given the size and growth rate of the functional food market, Health Canada is expected to amend existing regulations to facilitate marketing of these drinks. While the Canadian operations of major U.S. beverage companies are leading the charge for functional beverages and will be the dominant players in every channel in which these beverages are sold in Canada, other U.S. suppliers have an opportunity to investigate the vending market for these products and prepare to access it.

RTD beverages

Several ready-to-drink (RTD) beverages made their debut in the Canadian market in 2001. Many in the milk-based category were liquid chocolate or candy bars, with such familiar names as Neilson Jersey Milk, Nestlé Aero, Butterfinger and Hershey milkshakes, along with a selection of single-serve flavoured milk drinks.

Other hot-sellers among cold RTDs are iced teas, fruit and vegetable juices, fruit-, tea- and sparkling water-based drinks.³⁶ The key demographic in this segment is adults ages 18 to 29, who are more likely than older adults to indulge themselves.³⁷

While major brands dominate this segment, as they do most segments of the beverage category, it is important for prospective suppliers in the U.S. to know that several U.S. manufacturers, whose brand names were previously unknown in Canada, have successfully entered this market, including the vending channel. Examples are Snapple and AriZona. In both cases, market entry and brand awareness enjoyed strong promotional support.

Coffee & Tea

Better educated, more travelled consumers exposed to foods and beverages of other cultures are reshaping the market for hot coffee at the vending machine and other foodservice outlets. This growing sophistication is behind the most important change in hot coffee service: the shift from a product focus – standard hot coffee – to a menu focus that comprises a family of inter-related coffee products. Consumers are demanding high quality and variety. The facts speak for themselves:

³⁴Food Institute Report, March 12, 2001, pp. 3-5

³⁵Ibid

³⁶"Liquid Gold", by Arminta Castaldi: Canadian Grocer, April 25, 2002

³⁷Ibid

Sales of standard hot coffee are flat, but specialty coffees are turning in stellar performances with double-digit year-to-year sales increases. Consumption of espresso-based coffees increased 51 percent between 1999 and 2000, while cappuccino consumption gained 42 percent, lattes 22 percent, and ice-blended drinks were up 24 percent.³⁸

While the growing trend towards iced teas is good news for the vending industry, there is another value riding in its wake: consumers are realizing the health benefits of drinking tea and this is translating into increasing consumption of hot teas. Green tea, now being recognized as a digestive aid, posted an all-time high \$7.7 million in sales in 2000.

Best Vending Product Prospects

Rank	Product Prospect	Profile	Market change/ Description
1	<i>Meal solutions</i> - frozen	-superior taste -1 to 2 person servings -nutritious -low fat -bowl packaging -safe(well ahead of best before date) -new branded products for test marketing	-fastest growing segment in vending and retail channels -target to adults 18 to 29 -popular items: pasta, pizza pops, burritos, chicken pies, Chinese foods
2	<i>Small-meal solutions</i> -fresh (MAP), fresh -one-hand meals -fourth dayparts	-biscotti -granola RTE breakfast cereals -functional/energy bars: vitamin, calcium fortified, protein enriched -profile as for meal solutions (above)	-fast-growing market segment in all channels -under-represented in vending -energy bar sales up 32 percent in retail

³⁸“Coffee Today”, by Gina Monaco: *Canadian Vending & Office Coffee Service* magazine, October 2001, pp. 24-26

Rank	Product Prospect	Profile	Market change/ Description
3	Snacks -cookies -cereal bars -chocolate chip cookies -mini pretzels	<i>whole-grain cookies and granola bars</i> -high fibre -low-fat -with fruit/fruit filled <i>chocolate chip cookies</i> -superior flavour -oatmeal -with raisins	-king sizes trending up -strong growth in vending (proprietary sales data)
4	Salty snacks -corn chips -nachos	-spicy flavours -low-fat -oven-baked -single serve -with salsa	-all channel sales up 41 percent in 2000
5	Candy -mini-pretzels -flavoured popcorn	-superior taste -chocolate coated -caramel coated	-strong growth -under-represented in vending channel
6	RTD beverages -iced teas -Fruit juices -Vegetable juices -Sparkling water-based	-fruit flavours -herbal flavours -adults 18 to 29	-strong sales growth (proprietary data) -Retail +32 percent in 2000
7	Coffee -specialty coffees -iced coffee	-espresso-based -high quality -variety -coffee-chocolate blends	-cappuccino up 42 percent -lattes +22 percent -ice blends + 24 percent

Rank	Product Prospect	Profile	Market change/ Description
8	<i>Tea</i>	-green tea -black tea -specialty teas	All channel sales + 21 percent 1997-2000 Target markets: - women - adults 18 to 34

APF = All Purpose Food; C&S = Confectionery & Snacks; B= Beverage; MAP = Modified atmospheric packaging; RTE - Ready to eat

Changes and trends over the past five years:**a) In the consumer market:**

- Since the 1990-95 recession, rising employment, 20 percent income growth
- Strong economic growth, rising employment and incomes 1997 to 2001, despite meltdown in the high technology sector since 2000, recession and economic impact of September 11, 2001
- Gross Domestic Product gap between Canada and the United States continues to narrow, with Canada 13 percent behind the U.S. in 2002 - down from a 19 percent differential in 1995.
- In 1997, the first wave of “Baby Boomers” (1947-66) turned 50. Compared with earlier generations, they:
 - < have more disposable income
 - < are better educated
 - < are time pressed
 - < are well travelled
 - < enjoy ethnic cuisines
 - < want to stay healthy
 - < want to have fun
 - < have grown up with vending machine foods and beverages
 - < want convenience, quality and service and willing to pay for it
 - < see home meal replacements as time-savers that allow them more free time for the pursuit of leisure interests
 - < are technologically savvy
 - < are inheriting more
- Contradiction in boomer attitudes: no time, save time, spend time
- Dashboard dining
- Among the general population, there is greater awareness of the importance of nutrition, exercise, health eating and lifestyles
- Concerns about safety of food and water stemming from e-coli and salmonella contamination, BES and GMOs.
- Increasing popularity of Asian cuisines, which are perceived as healthy

b) In vending machine food sector:

- Blurring of boundaries between foodservice and retailing and of demarcation lines between categories in each sector, as foodservice retails food products and retailing offers foodservice.
- Consolidation in the vending channel as fewer operators own more machines and as new machines combine a refrigerated and a non refrigerated compartment side-by-side in a single unit.
- Increased branding of vending machines by major players (e.g., Nestlé, Procter &

- Gamble)
- Vending machine foods and beverages in schools, links with childhood/youth obesity, diabetes, dental caries; contracts with schools emerge as issues
 - Enhanced packaging technology facilitates introduction of fresh foods (salads, fruit, sandwiches)
 - In North America, new technologies facilitate flash reconstitution of frozen foods to fork-ready in 90 seconds. Trials at 10 sites in Ontario.
 - In the United Kingdom, successful 90-second flash reconstitution of French fries from frozen to hot with sauce option introduced nationally.
 - Use of new branded products by private label increases in retail channel, causing some major brand manufacturers to abandon new product concepts.

Some Products May Pose Problems Entering Canada

The Export and Import Controls Bureau of the Department of Foreign Affairs and International Trade is responsible for the issuance of permits for goods on the Import Control List and Export Control List under the authority of the Export and Import permits Act. The following products are subject to current controls:

Agricultural Products Subject to Import Controls (TRQ's)

Chicken	Margarine
Turkey	Ice Cream, Yogurt
Broiler hatching eggs and Chicks	Other Dairy Products
Shell Eggs and Egg Products	Barley and Barley products
Cheese	Wheat and Wheat products
Butter	Beef and Veal from Non-NAFTA countries

The following products are scrutinized by Health Canada and their counterparts:

Food Allergens

A variety of foods cause adverse reactions in hypersensitive individuals. Most adverse food reactions are caused by the following foods or their derivatives which are closely monitored for allergens and sulfite content by Health Canada:

Tree nuts	Peanuts
almonds	Sesame seeds
brazils	Milk
cashews	Eggs
hazelnuts	Fish
macadamias	Crustaceans (crab, lobster, shrimp, crayfish)
pecans	Shellfish (clams, mussels, oysters, scallops)
pine nuts	Soy

pistachios
walnuts

Wheat
Sulfites

If these foods and their by-products or derivatives are not labelled or are incorrectly labelled, or if inadvertent carry-over occurs during processing, the results can be fatal. Exporters of these products are encouraged to identify these ingredients or components. It is also recommended that the plant source all forms of hydrolysed plant proteins, starches, and lecithin be identified (e.g. hydrolysed soy of protein, modified wheat starch, soy lecithin)

Vitamin and Mineral Fortification

The addition of vitamins, minerals and amino acids to food is regulated by the Food and Drug Act and regulations. It specifies which foods may be enriched and with which nutrients.

Canadian requirements for the addition of nutrients to food may differ significantly from the United States and other countries due to differences in Recommended Daily Intakes. Vitamins and mineral supplements are regulated as drugs in Canada. For further information on these products, exporters must contact the Therapeutic Products Programme of Health Canada.

Novel Foods

Canada has a stringent process for evaluating the safety of novel foods, including foods derived through genetic modification (biotechnology). New novel food regulations under the Food and Drug Act and regulations require that manufacturers and exporters of novel foods notify Health Canada of their intention to market a new product in Canada. This pre-market notification allows Health Canada to conduct a thorough safety assessment of the product. A section of the Health Canada Web site is dedicated to novel foods. www.hc-sc.gc.ca/food-aliment/english/subjects/novel_foods_and_ingredient/novel_foods_and_ingredient.html

Food Additives

The use of food additives is strictly controlled by Canada's Food and Drugs Act and Regulations. Most foods approved for sale in the U.S. would comply with Canadian additive regulations, but differences can occur in the permissible levels and uses of food colorings and food preservatives. The food additive tables in Division 16 of the Regulations prescribe which additives may be used in foods sold in Canada, to which foods they may be added, for what purposes, and at what levels. Products containing non-permitted food additives may be refused entry into Canada. Canada's Food and Drugs Regulations are available on the Internet at: www.hc-sc.gc.ca/food-aliment/friia-raaii/food_drugs-aliments_droques/act-loi/e_index.html

Canadian regulations on food flavoring are not comprehensive. Health Canada officials approve flavorings on a case by case basis only. Health Canada requires manufacturers to submit a formal request describing the intended use and levels of flavorings not specified in the regulations. This must be supplied together with information relating to the estimated intake of the flavoring by the consumer under normal consumption patterns. Specific questions relating to ingredients, food additives, and chemical residue limits may be directed to:

Bureau of Chemical Safety
Health Protection Branch
Health Canada
Frederick G. Banting Building
Tunney's Pasture
Ottawa, Ontario Canada K1A 0L2
Telephone: (613) 957-1700

Food Irradiation

Irradiation is regulated by the Food and Drug Act and Regulations. Only the following foods are allowed to be irradiated in Canada: potatoes, onion, wheat, flour, whole wheat flour, whole and ground spices, and dehydrated seasoning preparations. Irradiated foods not in compliance with the Food and Drugs Act and regulations are not permitted for sale in Canada.

Specific import regulations exist for the following products:

Alcoholic Beverages	Grains
Dairy Products	Honey
Eggs and Processed Eggs	Infant Formula
Fish and Fish Products	Low Acid Foods in Hermetically Sealed Containers (- i.e., Canned Foods)
Food Additives	Maple Products
Food Colour	Meat and Poultry
Weight Loss Foods	Novel Foods
Fresh Fruits and Vegetables	Sports Nutrition Products
Processed Fruit and Vegetables	
Wildlife	

III. Road Map for Market Entry

Entry Strategy

How can U.S. exporters take advantage of this burgeoning Canadian market sector?

The first step in entering the Canadian market is contacting the State Regional Office representing the various State Departments of Agriculture. These offices promote the exports of food and other agricultural products from their region, worldwide and often are able to offer support in the form of the Foreign Agricultural Service (FAS) Market Access Program (MAP) funds.

Food Export USA represents agricultural products in the states of Connecticut, Delaware, Maine,

Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont.
(<http://www.foodexportusa.org>)

The Mid-American International Agri-Trade council (MIATCO) represents the states of Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin.
(<http://www.miatco.org>)

The Southern United States Trade Association (SUSTA) represents the states of Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia and West Virginia and the Commonwealth of Puerto Rico. (<http://www.susta.org>)

The Western U.S. Agricultural Trade Association (WUSATA) represents the twelve western state departments of agriculture and two territories from the Western U.S. The states include Alaska, Arizona, American Samoa, California, Colorado, Guam, Hawaii, Idaho, Montana, New Mexico, Oregon, Utah, Washington and Wyoming.
(<http://www.wusata.org>)

The second step in entering the Canadian market is locating an agent/distributor in Canada to represent your product.

The Foreign Agricultural Service (www.fas.usda.gov) at the United States Embassy in Canada (www.usembassycanada.gov) endorses a program for U.S. export ready companies called “Canada Connect”. The program is designed to help match prospective exporters with the suitable Canadian business entities (agents/distributors/brokers/buyers) and to ensure an accurately expedited entry into Canada. Contact Cory Streef or Virginia Zimm, Faye Clack Marketing & Communications Inc. , telephone: 905-206-0577 for more information.

In addition, the formerly named Canadian Food Brokers Association, now the International division for the ASMC (Association of Sales and Marketing Companies), will provide listings of its members, as well as distribute your request for representation to its members in Canada. (www.asmc.org)

Legal and regulatory requirements

In order to enter the Canadian market U.S. exporters must be armed with information on Canadian standards and regulations. Agents, distributors, brokers, and importers are often the best first line of communication and can lead companies through the regulatory import process.

The best entry method depends on the food product and the sub-sector identified as appropriate for each food product. Each sub-sector is regulated by government and industry import policies and trade acts. Each U.S. export opportunity must be thoroughly investigated relative to the legislation that exists for the product requesting entry.

Since April 1997, all federally-mandated food inspection and quarantine services for domestic and imported foods were consolidated into a single agency called the Canadian Food Inspection Agency (CFIA) (<http://www.inspection.gc.ca>). As a result, food inspection and quarantine services previously provided by Agriculture and Agri-Food Canada, Health Canada, Industry Canada and the Department of Fisheries and Oceans Canada are integrated under the CFIA. The responsibility of food safety policy and risk assessment remain with Health Canada. The following are several acts that food/beverages exporters should be aware. Full texts of Canada's Laws are available at www.justice.gc.ca

- Consumer Packaging and Labeling Act (CPLA)

The CPLA provides for the uniform labeling of consumer packaged goods for sale at the retail level. The Regulations prescribe requirements for bilingual labeling, metric net quantity declarations and for the size and location of mandatory labeling information. Currently these Regulations also prescribe standardized sizes for some consumer products for the following foods: glucose syrup and refined sugar syrup, peanut butter, and wine, but there is an interest among Canadian regulators to bring these products under the CAP Act.

- Food and Drugs Act

The Food and Drugs Act is a consumer protection statute dealing with food, drugs, cosmetics and medical devices. It establishes minimum health and safety requirements, as well as provisions preventing fraud and deception for all food sold in Canada. The Regulations contain food labeling requirements and standards of identity, composition, strength, potency, purity, quality or other properties for several classes of foods. (Health Canada Food and Drugs Act, <http://www.hc-sc.gc.ca>)

- Meat Inspection Act

The Meat Inspection Act and Regulations regulate international and interprovincial trade in meat and meat products. They provide for the registration of establishments involved in the slaughter, processing or packaging of products traded internationally or inter-provincially. Regulations also set standards of construction, operation and maintenance for registered establishments.

Labeling Requirements

General Requirements

The basic packaging and labeling requirements necessary for U.S. agricultural exports to Canada are:

- labels in English and French,
- net quantities in metric,
- list of ingredients,
- durable life date (if shelf life 90 days or less),
- common name of product,
- company name and address,
- minimum type size specifications,

- conformity to standardized package sizes stipulated in the regulations, and
- country of origin labeling.

Although the Universal Product Code (U.P.C.) or bar code is not required or administered by government, virtually all retailers require products to be labelled with a U.P.C.

Guide to Food Labeling and Advertising

The Canadian Food Inspection Agency has prepared a Guide to Food Labeling and Advertising which details the regulatory requirements for selling packaged foods in Canada. The CFIA Guide includes information on:

Basic Labeling Requirements

Advertising Requirements

Claims as to the Composition, Quality, Quantity and Origin of Foods

Nutrition Labeling

Nutrient Content Claims

Health-Related Claims

Other Product Specific Requirements

The full guide is available on the CFIA website at:

<http://www.inspection.gc.ca/english/bureau/labeti/guide/guideee.shtml>

Enforcement

The CFIA has the authority to refuse entry, detain, return, or remove from retail shelves any imported processed food product that does not meet the federal food labeling requirements.

Label Review

The Canadian Food Inspection Agency consolidates federal food label review under its "Single Access Food Labeling Service". The labeling service, designed particularly for new entrants in the marketplace who are not familiar with the Canadian regulatory system, is provided at specified regional locations across Canada (see page 18). These offices coordinate the requirements of the aforementioned federal departments to simplify product approval and label compliance. It is recommended that U.S. exporters submit their labels to the regional office closest to the targeted marketing area. A complete list of the labeling service offices is found in Appendix E.

The CFIA will provide advice on the labeling requirements of all the acts that the agency administers. If U.S. exporters provide sufficient information with their submissions, a complete label assessment can be accomplished in about two weeks.

Nutrition Labeling

Nutrition labeling on packaged foods sold in Canada is voluntary but regulations to make nutrition labeling mandatory are expected to be promulgated in late 2002 or early 2003. Currently, U.S. and Canadian nutrition

recommendations differ, and the nutrition information and format approved for food packages in the U.S. market is not permitted on food labels in Canada. Canada's Department of Health and Welfare Canada has issued guidelines for manufacturers who choose to display nutrition information on their labeled food products marketed in Canada. The minimum information necessary to constitute nutrition labeling is the heading "Nutrition Information", the serving size, and the "core list" of nutrients. The "core list" is comprised of energy value in calories and kilojoules, and the contents of protein, fat and carbohydrate in grams per serving. Inquiries and requests for copies of the guidelines for nutrition labeling should be directed to:

Nutrition Evaluation Division
Bureau of Nutritional Sciences, Food Directorate
Health Protection Branch, Health Canada
Banting Bldg., P.L. 2203A, Tunney's Pasture
Ottawa, Ontario, Canada K1A 0L2
Telephone: (613) 957-0352
Facsimile: (613) 952-7767

Web Site: <http://www.hc-sc.gc.ca/hppb/nutrition/labels/index.html>

Packaging and Container Regulations

Canadian regulations governing package sizes for fruits and vegetables, processed horticultural products and processed meats stipulate standardized package sizes which can differ from U.S. sizes. For detailed information see Section VI.

Although the Universal Product Code (U.P.C.) or bar code is not required or administered by government, virtually all retailers require products to be labelled with a U.P.C.

Major Suppliers, Brokerages and Operators for the Vending Industry

Company:	Type*	Address:	Product Lines**	Contact
Aramark Canada Ltd.	O(N)	811 Islington Avenue Toronto, ON M8Z 5W8 Tel: 416-255-6131 Fax: 416-253-3185 www.aramark.ca	A, B, C, Cf, S	info@aramark.ca
Bemco Confectionery & Sales Ltd.	S(N)	52 Samor Road Toronto, ON M6A 1J6	C, B, S, O	Issie Pelc, President

Byford Sales & Marketing Inc.	B(N)	4527 Gullfoot Circle Mississauga, ON L4Z 2K3 Tel: 905-568-1572 Fax: 905-568-3785	Cf, A, S	bbyford@idirect.com
Compass Group Canada Ltd.	O (N)	131 Brunel Road Mississauga, ON L4Z 1X3 Tel: 905-568-4636 http://www.cgnad.com	A, B, C, Cf, S	info@compass-canada.com
DeR Coffee Co. Ltd.	S(N)	10756-180 Street Edmonton, AB T5S 2S4 Toll Free: 1-866-444-2379 Fax: 780-415-5440	Cf, O	derbean@telusplanet.net
Ev's Vending	S(L)	991 Matheson Blvd. E, Unit #15, Mississauga, ON L4W 2V3 Tel: 905-629-1304 Fax: 905-629-7968	C, S	Everett Bigelow, President
Horse & Buggy Brands Inc.	S(N)	164 Howard Avenue Elmira, ON N3B 2E1 Toll Free: 877-473-2688 Fax: 519-669-4242 www.horseandbuggybrands.com	C, S	info@horseandbuggy.bidcon.net
Kingsmill Foods Company Limited	S (N)	1399 Kennedy Road, Unit #17, Scarborough, ON M1P 2L6 Tel: 416-755-1124 Fax: 416-755-4486	B, Cf,	Catherine Macdonald, President & COO
Laniel Canada Food Products Div.	S (N)	7101 Transcanadienne, St-Laurent, QC H4T 1A2 Tel: 514-331-3031 Fax: 514-331-2327 http://www.laniel.com	A, Cf	mail@laniel.com

McKee Group Inc.	S	P.O. Box 300 North Bay, ON P1B 8H2 Toll Free: 800-634-9914	B, C, Cf, S	Dave McKee, Owner
Sodexo Group	O(N)	3350 South Service Road Burlington, ON L7N 3M6 Tel: 905-632-8592 Fax: 905-632-5619 http://www.sodexoCA.com	A, B, C, Cf, S	Tel: 905-632-8592
The Heritage Coffee Companies	S(N)	4540 Eastgate Parkway Unit 3 Mississauga, ON L4W 3W6 Tel: 905-624-6417 Fax: 905-624-0518 www.heritage-coffee.com	Cf	Brian Martell, Vice-President Sales brian@heritage-coffee.com
Ven-Cor Vending Distributors Corp	D, S(N)	20 Automatic Road Unit 4 Brampton, ON L6S 5N6 Toll Free: 800-268-1626 Fax: 905-840-1179	B	Dennis Hatley, President Tom Nicoll, Vice President
Vending Products of Canada	S(N)	108 - 1 Woodbine Downs Blvd Rexdale, ON M9W 5S6 Tel: 416-213-8363 Fax: (416)213-0616	B, C, Cf, S	Sam Neill, President sam@vendproductscan.com
Vendors Choice Wholesale Ltd.	S(N)	7938 Winston Street Burnaby, BC V5A 2H5 Tel: 604-422-8441 Fax: 604-422-8443	A, B, C, Cf, S	Don Watson, President

* B=Brokerage; (L)= Local; (N)= National; O=Operator; (R)= Regional; S= Supplier

** A= All Purpose Food; B= Beverage; C= Confectionery; Cf=Coffee; S= Snacks

Activities

Trade and Consumer Shows in Canada in 2003

March 6-8: 2003 EXPO Hilton, Place Bonaventure, Montreal, Quebec. Contact: Canadian Automatic Merchandising Association, 2121 Argenta Road, Suite 404, Mississauga, Ontario L5N 2X4 Telephone: 905-826-7695 Toll Free: 1-888-849-2262 Fax: 905-826-4873

March 7-9: CAMA Trade Show, Montreal, Quebec. Contact: Contact: Canadian Automatic Merchandising Association, 2121 Argentia Road, Suite 404, Mississauga, Ontario L5N 2X4 Telephone: 905-826-7695 Toll Free:1-888-849-2262 Fax:905-826-4873

III. Conclusion

Canada's vending channel is primarily a provider of anytime access to a variety of hot and cold beverages, confectionery and snacks. As a purveyor of home meal replacements – the most important food trend in several decades – the channel is underdeveloped. In contrast, the retail sector has recognized the needs of time-pressed urban consumers in search of convenient meal solutions and is meeting them with an ever-widening selection of offerings that contributes significantly to the bottom line. This failure in the Canadian vending channel to capitalize on such an important trend suggests significant opportunities await U.S. food manufacturers and suppliers.

The best immediate opportunities for U.S. food exporters are in nutritious meal solutions – entrées that are either frozen or fresh in modified atmospheric packaging – healthful snacks, fruit juices and gourmet coffee. In the near to intermediate future, an important opportunity for functional beverages should present itself.

The young adult market is pivotal to success, as it epitomizes the time-pressed urban consumer, who is familiar with vending machine foods and beverages, has confidence in their safety and quality, and has the technological savvy to take advantage of new and advanced vending technologies that facilitate off-site selection, ordering, reconstitution and payment.

Two other important opportunities await prospective exporters to the Canadian food-vending sector. First, the channel is an excellent vehicle for new product trials. It provides a valuable opportunity for advertising and sampling of new branded retail products. While some manufacturers of branded foods have concerns over product handling, temperature control and overall management and the risks these might hold for their brands, opportunities exist for them to create new vending-specific brands. Second, with the use of new branded products in the retail sector by, primarily, private label, vending could be utilized as a key distribution channel for them.

Regardless of whether manufacturers choose to promote existing brands or to create new ones specific to vending, the benefits of using the vending channel include increased distribution points, enhanced brand exposure to highly specific demographic audiences (e.g., college campuses, corporate cafeterias, hospital workers, etc.) and increased product trial occasions.

For U.S. food manufacturers, good opportunities exist in the Canadian vending machine food distribution sector. To successfully take advantage of these opportunities, exporters need to be aggressive and willing to invest in promoting their products.

APPENDIX

Government Regulatory Agencies and their Functions

Government Regulatory Organizations	Purpose/Function	Contact Information
Canadian Food Inspection Agency (CFIA)	The CFIA is the Government of Canada's Regulator for: Food safety (along with Health Canada) Animal health Plant protection	59 Camelot Drive Nepean, Ontario K1A 0Y9 T: 613-225-2342 F: 613-228-6653 www.inspection.gc.ca
Canada Customs and Revenue Agency (CCRA)	Canada Customs' mission is to promote compliance with Canada's tax, trade, and border legislation and regulations through education, service and enforcement. CCRA will provide information regarding your obligations and entitlements under the import laws in Canada which they administer.	International Tax Services 2204 Walkley Road Ottawa, Ontario K1A 1A8 T: 800-267-5177 F: 613-941-2505 www.ccra-adrc.gc.ca
Canadian Food and Drug Act (FDA)	The Canadian Food and Drug Act is a regulatory document provided by Health Canada. It's contents are extensive and may be used for information regarding specific food import restrictions.	See Health Canada address or e-mail: Gary.Trivett@hc-sc.gc.ca www.hc-sc.gc.ca/food
Health Canada	Health Canada administers the Food Safety Assessment Program which assesses the effectiveness of the Canadian Food Inspection Agency's activities related to food safety. This includes reviewing the design and operational delivery of CFIA's programs related to food safety, assessing compliance with health and safety standards and evaluating the results achieved.	A.L. 0900C2 Ottawa, Ontario K1A 0K9 T: 613-941-5366 F: 613-957-2991 www.hc-sc.gc.ca
Bureau of Food Safety Assessment	The purpose of BFSA is to provide objective information and advice to the Minister of Health on the effectiveness of CFIA's programs and activities aimed at contributing to the safety and nutritional quality of the food supply.	See Health Canada address www.hc-sc.gc.ca/food-aliment

Government Regulatory Organizations	Purpose/Function	Contact Information
Foreign Affairs and International Trade (DFAIT)	DFAIT is responsible for allocating tariff rate quotas to importers.	125 Sussex Drive Ottawa, Ontario K1A 0G2 T: 613-944-4000 F: 613-944-6500 engserv@dfait-maeci.gc.ca www.dfait-maeci.gc.ca
Measurement Canada	Administers and enforces the Weights and Measures Act through the exclusive constitutional authority of the Government of Canada. www.strategis.ic.gc.ca	Industry Canada T: 613-954-5031 strategis@ic.gc.ca www.strategis.ic.gc.ca
Environment Canada	Administers the North American Agreement on Environmental Cooperation (NAAEC) which is the environmental side agreement to NAFTA. The NAAEC was signed by Canada, Mexico and the United States and came into force January 1, 1994. www.naaec.gc.ca	351 St. Joseph Boulevard Hull, Quebec K1A 0H3 T: 819-997-2800 or 800-668-6767 F: 819-953-2225 enviroinfo@ec.gc.ca www.naaec.gc.ca

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Contact FAS/Ottawa by e-mail: info@usda-cananda.com

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Related FAS/Ottawa reports:

AGR#	Title of Report	Date
CA0047	HRI Foodservice Sector - Eastern Canada	04/19/00
CA0127	HRI Foodservice Sector - Western CA	08/25/00
CA1054	SIAL Montreal 2001 Evaluation	04/01/01
CA2002	Convenience & Non-Traditional Grocery Outlets Report	01/04/02
CA2075	An Overview of the Institutional Foodservice Market in Canada	07/10/02
CA2099	Food and Beverage Shows	08/19/02
CA2114	Canadian Food Brokers	09/30/02